

## **FirstNet sheds light on financial challenges during Industry Day event**

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[FirstNet](#) is seeking partnerships that ensure the nationwide public-safety broadband network is financially sustainable in the long term and provides first responders with “the best price possible” for service, officials said during a meeting yesterday with industry vendors interested in responding to the FirstNet draft RFP.

During the Industry Day event—conducted in Virginia and webcast—FirstNet officials outlined multiple operational and functional aspects of the much-anticipated broadband network that will be deployed on 700 MHz spectrum. But significant attention was paid to information about FirstNet’s business-model vision.

John Quinlan, FirstNet’s deputy chief financial officer for strategic planning, acknowledged that making FirstNet financially sustainable is “potentially a challenge,” because FirstNet has only \$7 billion in federal funding—well below the reported tens of billions of dollars that commercial wireless carriers spend annually to maintain and upgrade existing networks.

“We do think [financial sustainability is] achievable, because we have significant assets at our disposal,” Quinlan said. “It’s a critical principle, because, one, it’s required by our own authorizing statute under federal laws, and more importantly, if we were to reach financial sustainability, we can provide assurance to our public-safety end users that we have a financial stable network that will be around for a long time.”

In addition to the \$7 billion allocated by Congress, Quinlan reiterated other avenues FirstNet can pursue to realize its financial goals, including revenue from user fees, infrastructure-related synergies, and revenue from secondary use of network capacity by commercial users.

Quinlan said FirstNet believes it could have 4 million to 13 million public-safety users on the network, with the variance depending on adoption and the definition of a “public-safety entity” that qualifies to be considered for priority access to the system. Based on a fee structure of \$30 per user per month “would yield over a billion to \$3.5 billion per year,” he said.

In terms of synergies from the use of existing infrastructure or capabilities, Quinlan offered a potential example regarding [backhaul](#) .

“If FirstNet were to buy a backhaul solution at each one of the sites for the network, we could say that could run about \$2,000 per month,” he said. “However, since our FirstNet user base is relatively small compared to the total population of broadband users across the country, the incremental costs of our additional traffic could be significantly less than the \$2,000 per month.

“That could produce a financial savings that would further our financial-sustainability objective and also an element that potential offerers could use in developing a solution to meet our financial-sustainability objective.”

However, FirstNet officials have acknowledged that the organization will not be able to fund a long-term sustainable network based solely on the \$7 billion in funding, user fees and synergies. To make the funding model work in the long term, FirstNet needs to be able to monetize its greatest asset: the excess capacity created on the network’s 20 MHz of public-safety broadband spectrum in the 700 MHz band.

Industry observers have varied opinions about the value of the excess broadband capacity on the [FirstNet](#) system, with skeptics stating that the potential value is diminished greatly by the fact that commercial users can be preempted by public-safety users during times of emergency. But others are more optimistic, noting that an emergency typically would affect capacity only on one cell sector, so most commercial users would not be noticeably impacted.

Quinlan said the demand for spectrum is high, citing the recently completed AWS-3 auction that generated more than \$40 billion in revenue for the U.S. Treasury.

“If we just adjusted for the size of FirstNet’s excess capacity, it would equate to \$17 billion,” Quinlan said. “I’m not saying that that is the value *per se*, but it’s a good benchmark to keep in mind.”

Quinlan said other advantages that secondary use of FirstNet's spectrum capacity can offer include:

- FirstNet does not require a lump-sum, upfront payment, so value could be derived over time through cash or in-kind benefits;
- FirstNet's spectrum is largely unencumbered and is "potentially immediately available upon award," whereas AWS-3 and TV spectrum that is scheduled to be auctioned next year will take more time to be cleared and secondary-market spectrum transactions also can take years to execute; and
- FirstNet's 700 MHz spectrum "is considered ideal, both for coverage and data capacity" and historically has been greater than the AWS-3 airwaves.

Throughout the Industry Day event, FirstNet officials reiterated the need to provide a financially sustainable network and that bid proposals would be evaluated based on how they would impact FirstNet's ability to provide public safety with a nationwide broadband network.

Of course, the law creating FirstNet mandates that states and territories will have the option to "opt out" of the FirstNet system, which means the "opt out" jurisdiction would deploy the radio access network (RAN) within its territory and integrate it within the larger FirstNet system. In a recent proceeding, several states questioned FirstNet's preliminary legal interpretation that revenues generated within an opt-out state should be available for use in other parts of the country.

Quinlan said that federal laws require FirstNet has to be deemed financially sustainable "before we can award a solution, contract or contracts." Given this criteria and the potential impact that opt-out decisions in key states could have on FirstNet's overall financial model, one attendee asked whether FirstNet would wait until opt-out decision were made before awarding a contract.

Jason Karp, [FirstNet](#)'s acting chief counsel, acknowledged that this timing issue is a problem, describing it as "the bane of my existence as a lawyer" associated with FirstNet.

"From a practical perspective, what we are proposing in the draft RFP documents and special notice is an all-opt-in scenario, as an initial matter," Karp said. "We want to understand what is the best solution that you [offerers] can bring to the table. We understand that ... there may be states that are seeking to opt out, and that theoretically could change the financial picture—as

well as the operational picture—of the initial submissions that we get.

“We’re going to have to have a mechanism for incorporating that, and that could be done in a lot of different ways. At this point, we’re very early in the process, and we’re looking for feedback—quite frankly—on this. This could be a single award; this could be multiple awards; this could be through change-order process. There’s a lot of mechanisms that we can bring to bear within the government process to account for that process within the act. Frankly, at a draft stage for the RFP, we’re looking for very creative solutions, in terms of how we approach this.”

Quinlan said that FirstNet wants to enter into a “long-term contractual arrangement” that provides assurances that public-safety users receive competitive pricing as market conditions change.

“Our intent is to have contractual provisions that ensure that we have a quality network but also ensure that public safety is facing the best price possible for service, thereby promoting one of our underlying missions of broadband adoption for public-safety users,” Quinlan said.

Overall, Quinlan provide the following direction to entities that plan to respond to the FirstNet draft RFP:

“We would have offerers review our objectives, as laid out in the statement of objectives, develop the best possible solution they could for public safety, and then review our assets—shown here as Band 14, which enables both the public-safety user fees and the excess network capacity,” he said. “Then, they would communicate to FirstNet how much government funding is required and the fixed payments to FirstNet over time for the use of FirstNet’s assets and to support ongoing program costs throughout the life of the contract.”

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